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WEEKLY SUMMARY



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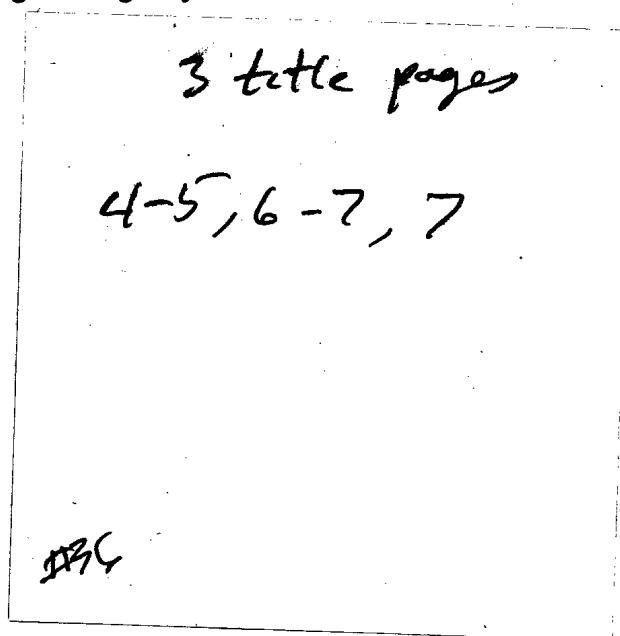
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SECRET**H I G H L I G H T S**

The Soviet propaganda "peace offensive" was sharply intensified during the past week by Premier Stalin's oblique proposal in press interviews that President Truman meet him in eastern Europe for peace talks to end the cold war. The timing of the Stalin interviews apparently expresses the Kremlin's grave and increasing anxiety over the progress made by the western powers in defensive planning and economic recovery for western Europe; the intent of the interviews was to create confusion and disunity among the western powers (see page 4). Although it is clear that the Kremlin would welcome a Truman-Stalin meeting on Soviet terms, there is no evidence that Soviet policy toward the West has changed or that Soviet efforts to expand world Communism have relaxed.

The current deadlock in the Israeli-Egyptian negotiations at Rhodes provides fresh evidence of the serious and fundamental difficulties which still obstruct a settlement in Palestine (see page 8). Unless the present trend toward stalemate at the Rhodes Conference is reversed, a renewal of Arab-Israeli hostilities seems likely. Failure at Rhodes will also have an inhibiting effect upon further Israeli negotiations with Transjordan and Lebanon, which have been suspended during the Rhodes talks.

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SECRET**WESTERN EUROPE****UNITED KINGDOM**

Trade Policy The reviving economies of Germany and Japan and the resulting increased competition for world export markets are causing serious concern to the British Government. Paradoxically, the British program for internal recovery and stability, which has been keyed to expanding exports, is threatened by the re-emergence as potential exporters of these two countries whose industrial restoration the UK has committed itself to support. Always of postwar concern to British industrial circles, this rising competition may compel the British Government to formulate an official policy designed to safeguard British industry. The Government may wish to have legitimate economic restrictions imposed on Germany and Japan, including such measures as non-subsidization of exports, a ban on dumping, fair labor standards, and sound financial practices. In addition, the British will tend to interpret narrowly the western powers' agreement on production limitations in certain strategic fields, as they have already done in shipbuilding. Despite such restrictive devices, however, the British desire to expand the total world market sufficiently to provide reasonably assured outlets for all exporters will preclude the adoption of a policy which would seriously retard the development of peacetime industry in Germany and Japan.

GERMANY

Inflationary Pressure Inflationary pressures in west Germany will gain new impetus if increased prices necessary to eliminate the operating losses of coal, steel, and transportation industries are passed along to consumer products. Such a development is likely because the hard-pressed Laender governments cannot afford from present revenue to

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SECRET**GERMANY**

continue subsidies to cover industrial operating losses. The coal industry is in financial difficulty because 37% of the mines are sub-marginal and machinery and equipment are obsolete. As a result, the Ruhr coal industry is operating at a loss of about $1\frac{1}{2}$ million dollars a month and must be sustained by subsidies from the German government. In an effort to relieve the Bizone of this burden, AMG officials are urging an increase in the export price of Ruhr coke and coal. France and the Benelux nations have already registered strenuous objections to any increase in prices. Bizonal authorities are also considering increases in the price of gas and electric power produced at the mines. The steel industry refuses to pay the increase in the price of coke that went into effect in August 1948 unless it is permitted to increase its own prices accordingly. The railroads, operating at a loss of 10 million dollars a month, have recently received a subsidy of 35 million dollars in lieu of increased freight and passenger rates. This subsidy is insufficient, however, to pay for the heavy reconstruction program which will be necessary during 1949 to keep pace with the expansion of industrial production projected under the European recovery program.

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SECRET**E A S T E R N E U R O P E**

Stalin's Interviews The dramatic and unprecedented intensification of the current Soviet propaganda "peace offensive," as revealed by Stalin's action in proposing a meeting with President Truman, reflects the grave and increasing anxiety of the Kremlin over the progress of western defensive planning and economic recovery in western Europe. Stalin's interviews also reveal the continued determination of the Kremlin to prevent the containment of the USSR by an increasingly strong western bloc.

Atlantic Pact In its timing, Stalin's interview appears to have been motivated primarily by the rapid development of the Atlantic Pact and reflects Soviet determination to prevent, delay, or at least minimize the entire western defense effort. Soviet concern over the Pact had already been expressed in the Kremlin's blunt note to Norway and in the recent Soviet "White Paper" on the Pact. Owing to the proximity of Norway, the USSR is unquestionably disturbed over possible Norwegian adherence to the Pact and, despite the peaceful tone of Stalin's pronouncements, can be expected to intensify its efforts to prevent Scandinavian participation in western defense plans. Although Soviet aggression is unlikely, the USSR will probably increase its pressure on the Scandinavian countries through propaganda, Communist Party activity, and possibly economic pressure.

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STALIN'S PRESS INTERVIEWS

Insincerity By presenting his proposal for a Truman-Stalin meeting through the press rather than through official channels, Stalin has not committed the USSR to any specific action and has been able to exploit the hope of the world for peace. The insincerity of Stalin's proposal is revealed by his refusal to meet President Truman outside the Soviet orbit, which is actually an attempt to create the impression that the West must go to Stalin. Although Stalin's health might keep him from making the long journey to Washington, it presumably would not prevent him from going to a nearby country outside the Soviet orbit. Moreover, if the Kremlin were sincere in its desire to meet the West halfway, Stalin would not have made his proposal to the US alone. This approach was undoubtedly designed to create disunity among the western powers and to arouse the suspicions of the non-Communist world concerning the good faith and reliability of the US.

No Policy Change Although the Kremlin would welcome a Truman-Stalin meeting on Soviet terms, Stalin's recent statements offer no evidence of any change in basic Soviet policy toward the West or of any relaxation of Soviet efforts toward the expansion of world Communism. For example, Stalin's remarks concerning Germany, coupled with his failure to refer to the currency issue, reveal continued Soviet determination to prevent the establishment of a west German state. Stalin reiterated the Soviet demand made during the negotiations of last August and offered no immediate prospect for the lifting of the Berlin blockade.

SECRET**SOVIET UNION**

Foreign Trade The Soviet decision to participate in the current International Wheat Conference was probably prompted by the desire to perpetuate existing Soviet trade agreements with the nations of western Europe. Grain-producing nations -- especially the US, Canada, and Argentina -- have large exportable surpluses of wheat. Thus, an international agreement undertaken without Soviet participation might have led certain western European nations to shift their wheat purchases from the USSR to the western wheat exporting countries, thereby making more difficult the fulfillment of Soviet import requirements. The USSR is undoubtedly eager to keep its trade agreements with such countries as Belgium, Norway, Switzerland, and the Netherlands, which are supplying the USSR with ships, diesel generators, power equipment, tin, rubber, chemicals, drilling installations, industrial diamonds, tungsten, and other items in short supply in the Soviet orbit. The loss of these essential strategic imports would be a considerable blow to Soviet plans for expanding heavy industry and also would retard the development of the Soviet-Satellite war potential.

East German Economy Soviet plans for orienting the east German economy toward the Soviet orbit economies were indicated at the recent Socialist Unity Congress in Berlin which was attended by delegates from all countries in the Soviet bloc, excepting Finland and Yugoslavia. In the keynote address for the Satellite delegations, Czechoslovak Deputy Premier Fierlinger exhorted the east Germans to cooperate in establishing increased economic ties with the Soviet empire. Fierlinger added his conviction that political and economic developments in east Germany would inevitably lead to greater economic exchange with Czechoslovakia. This emphasis upon the coordination

SECRET**SOVIET UNION**

of the east German economy with the economies of Poland and Czechoslovakia reflects the Kremlin's concern with both the deterioration of the east German economy and the unsatisfactory rate of improvement in the Satellite economies, especially that of Czechoslovakia.

YUGOSLAVIA

Dialectical Battle In the continuing dialectical battle between Tito and Stalin, Tito now appears to have won the first round. In drawing upon the works of Marx to prove that Stalin, not Tito, is guilty of nationalism, Tito has uncovered the one notable disparity between Marxist theory and Soviet practice. Tito and his lieutenants have accused Stalin of abandoning the "Marxist principle of equality between small and great" and his leading theoretician has asserted that Soviet Communism "unilaterally takes into consideration the duties. . . of other countries toward the Soviet Union and not the duties of the first country of Socialism (USSR) toward the proletariat of other countries and toward the new Socialist countries." These charges, which preceded the announcement that Bulgaria, Rumania, Hungary, and Poland had become "dictatorships of the proletariat," were shrewdly calculated to upset the Politburo and to strike at the right of the USSR to exploit its eastern European empire. In addition, the assertion of the Tito Communists that Yugoslavia alone of all the Socialist countries upholds Marxist-Leninist principles is obviously aimed at arousing discontent among subservient Satellite leaders.

SECRET**NEAR EAST - AFRICA****PALESTINE**

Rhodes Impasse The current deadlock at the Rhodes Conference is in the familiar pattern of previous efforts to bring peace to Palestine. On three occasions during the past year there has been a brief flareup of hostilities, followed by a UN-decreed cease-fire and then a fruitless effort by the UN to persuade the belligerents to compose their differences. The imminent completion of this cycle for a fourth time is indicative of the seriousness of the difficulties which still obstruct a settlement of the Palestine problem. Although the Rhodes talks between Israel and Egypt have not yet broken up, the probable failure to achieve an armistice is likely to inhibit Israel's negotiations with Transjordan and Lebanon, which have been held up pending the outcome of the talks. Transjordan and Lebanon, which are more interested in a final settlement than the Egyptians, will probably engage in new talks with the Israelis at Jerusalem if not at Rhodes. Nevertheless, such talks will be hampered by considerations similar to those which have thus far blocked an Israeli-Egyptian deal. Although the decision of the UK and the major western European countries to recognize Israel may impress the Arabs, it will not necessarily dissuade them from believing that continued stalemate, even at the risk of further Jewish aggression, is preferable to open abandonment of their claims. King Abdullah of Transjordan, who has stressed his desire to bargain, may go further than the others toward compromising with the Israelis, particularly now that he has received the moral support of US recognition. Even if Abdullah ignores the more extreme claims of the other Arab states, however, his desire to obtain the best possible terms may well impede a prompt settlement even for his limited sphere of Palestine.

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INDIA - PAKISTAN

Czechoslovak Relations Czechoslovakia is replacing its representative on the UN Commission for India and Pakistan in a manner which leaves no doubt that the new appointee will be a trusted Communist. Because the present Czechoslovak representative is an old-line democrat who cooperated freely with his four western colleagues, the shift will provide the Soviet bloc with its first real opportunity for influencing the handling of the delicate Kashmir problem. If Czechoslovakia had merely been making a routine change in diplomatic appointments, it would scarcely have informed India that: (1) the Czechoslovak representative was being replaced because he was "pro-Pakistan and pro-British" (India would have been the first to oppose him on those grounds); and (2) India would strain Indo-Czechoslovakian relations if it ventured to object to the new representative.

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SECRET**F A R E A S T****CHINA**

Peace Talks The probability of Chinese Communist insistence on unconditional surrender of the Nationalist Government became more certain this week as a result of Communist demands for compliance with Mao Tse-tung's eight-points as a prerequisite to the start of peace "negotiations." The Communists also called upon Acting President Li Tsung-jen to arrest and deliver to them President Chiang Kai-shek and all other "war criminals." Li could not possibly comply with all these demands, even if he wished. In fact, there is no single authority, including Chiang Kai-shek, who can deliver intact to the Communists the remaining anti-Communist forces in China. The Communists, therefore, regard the Nanking Government as a mere regional regime, which controls only one or two of the principal centers of resistance. They have announced that the pattern established by the surrender of Peiping (gradual Communist occupation of the city as Nationalist forces withdraw and lay down their arms) will apply to the 16 other major centers of non-Communist China. The Peiping formula gives the Communists the double advantage of peaceful occupation of the areas of resistance and sufficient time to organize and staff Communist administrations for these areas. The projected Communist "coalition" government for all China will still exclude Chiang Kai-shek and his associates, although the door remains open for the inclusion of Nationalist leaders who facilitate Communist occupation of the remaining centers of resistance. The Communist "coalition" government will probably be proclaimed sometime after more than half the territory and people of China fall under Communist control. This "coalition" government will then seek international recognition as the legal government for all of China.

SECRET**CHINA**

Military Retreat As the Chinese Communist armies continued moving into position along the north bank of the Yangtze, the Nationalist High Command started withdrawing troops southward from its "impregnable" Yangtze defense line and began preparing a new general east-west line running from Wuchang to Nanchang and thence along the Chientang River. This defense plan, reportedly to be implemented if current peace negotiations fail, presumes the complete abandonment of Shanghai, Nanking, and Hankow. Therefore, these cities will probably come under Communist control within the next 30 days. This latest defensive tactic is apparently a Nationalist attempt to preserve their remaining men and equipment while awaiting the renewal of US aid. The planned withdrawal probably sets the pattern for future Nationalist action in the face of superior Communist forces. As a further preparation for such a program, the Nationalist capital has been moved to Canton where the Government announced it would be open for business on 5 February. The abandonment of Nanking, however, is a heavy blow to Nationalist prestige. In moving south, the Nationalist Government gives up its political stronghold of the past two generations and enters an area where local political elements are either unfriendly or antagonistic.

TAIWAN

Economic Distress Popular resentment by the Taiwanese against emigres from the Chinese mainland may result in acts of violence and sabotage within the next few weeks, but such outbreaks are unlikely to threaten Nationalist control of the island. The major problem facing the Nationalist administration on Taiwan is the economic distress caused by the influx of at least several hundred thousand people from the mainland. This influx has

SECRET**TAIWAN**

created inflationary conditions, a rice shortage, and an almost complete diversion of shipping from normal Taiwanese trade to evacuating refugees and supporting the Chinese administration. Arsenal equipment shipped from the mainland, if put in operation, will lower Taiwan's normal industrial production by straining the island's limited power and other resources. Although Nationalist gold supplies in Taiwan could be used to stabilize the currency, they will be more likely held in reserve for future use by the National Government in combatting the Chinese Communists.

INDONESIA

Dutch Plans Continued Indonesian resistance will probably foil current Dutch plans to circumvent a considerable portion of the recent Security Council resolution on Indonesia. The Dutch apparently hope that they can effect a quick settlement between non-Republican Indonesians and interned Republican leaders on the terms of Republican participation in a United States of Indonesia. The Dutch could then argue that agreement by responsible Republican leaders to take part in such consultations makes unnecessary both the re-creation of the Republic and negotiations under the supervision of the new UN Committee for Indonesia. Acquiescence to such a plan by interned Republicans, however, is unlikely. Republican Premier Hatta will probably be quick to recognize the disadvantages of a Dutch-sponsored Federalist plan compared to the advantages offered by negotiations under UN auspices. In addition, the effectiveness of the Republican resistance, which could be continued for several years, enhances the bargaining position of the Republicans. Contrary to Dutch reports, guerrilla activity is reportedly having a serious effect upon the Indonesian

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INDONESIA

economy. Raiding Republican bands, operating from well-established concentrations and areas where they have undisputed control, have been successful in disrupting the essential transportation and communication facilities upon which profitable operation of the economy by the Dutch depends. In some areas, where the Republican resistance is especially well-organized, the guerrilla bands have taken the initiative in local harassing operations.

BURMA

Racial Strife The Karen-Burman conflict, which has spread throughout lower Burma and now appears to have become full-scale warfare, is by far the most acute problem facing the seriously-weakened Burmese Government. The Karens are fighting for possession of several important towns, including the Port of Bassein; many Karen and Burman villages have been destroyed; and Karen troops are reportedly deserting the armed forces. Although peace talks are in progress between the Burmese Government and Karen leaders, there seems little likelihood of a lasting settlement. A major obstacle to such a settlement will be the probable refusal of Prime Minister Thakin Nu to agree to Karen demands for the formation of an autonomous Karen state that would include areas where Burmans outnumber Karens by as much as three to one.

SECRET**W E S T E R N H E M I S P H E R E****ARGENTINA**

Economic Changes Argentina is apparently endeavoring to adjust its economy and trade policies to the growing international buyers' market in the hope of improving its financial and trade relations with the US and other countries. Miguel Miranda, postwar economic czar and sponsor of Argentina's "hard bargaining" trade methods, has been removed from the National Economic Council and many of his former powers will probably be assigned to the more internationally-minded secretaries of Economy and Finance. There are indications that the exchange rate of the peso may be changed in an attempt to increase Argentina's international trade. Moreover, Argentine participation in the International Wheat Conference suggests a relaxation of Argentina's former unilateral attempts to use its wheat surpluses to gain economic advantages. At home, strong emphasis is currently being placed upon increased production. Peron probably hopes that these changes will improve Argentine prospects for participation in European dollar trade and will facilitate closer cooperation with the US which might lead to some US assistance to alleviate Argentina's present financial difficulties. The adoption of these reform measures, however, may have been delayed too long to avert a major economic crisis and a reorganization of the Argentine Government.

VENEZUELA

Regime Threatened Growing disaffection within the Venezuelan Army and increasing opposition from political parties and former government leaders are threatening the military junta now governing Venezuela.

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VENEZUELA

Opposition groups are as yet uncoordinated but the regime is becoming increasingly insecure in view of the possibility that opportunists, particularly in the armed forces, can capitalize on the growing unrest and rally support from hitherto disunited groups.

PARAGUAY

New Government The sudden change on 30 January in the Government of Paraguay differs in two respects from recent upsets in El Salvador, Venezuela, and Peru and may therefore raise new considerations in the application of the Bogota Conference resolution regarding the continuity of diplomatic relations. Unlike the previous coups, the use of military power in forcing President Gonzalez to hand over the Government to opposing members of his own Cabinet and political party was indirect rather than open. Moreover, the new regime, in attempting to establish its legality, carefully adhered to the Paraguayan constitution after President Gonzalez' resignation, and has promised a truly democratic election. Regardless of the "legality" of the new regime, its continuance in power will depend upon its ability to retain the support of the army and police. Meanwhile, there is no reason to believe that the present Paraguayan Government will be less friendly to the US than the Gonzalez Government.

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- 22,23,24. Special Assistant to Secretary of State for Research
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- 25,26,27,28,29, 30,31,32,33,34. Director of Intelligence, General Staff, U.S. Army
- 35,36,37,38,39, 40,41,42,43,44. Chief of Naval Intelligence
- 45,46,47,48,49. Director of Intelligence, U.S. Air Force
50. Director of Security and Intelligence, Atomic Energy Comm.
51. Executive Secretary, Military Liaison Committee,
Atomic Energy Commission
- 52,53,54,55,56. Chief, Acquisition & Distribution Division, OICD, Dept. State
57. Director, Federal Bureau of Investigation
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59. Chief, Policy Planning Staff, Department of State
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61. Deputy Director, Joint Intelligence Group, Joint Staff
- 62,63. Secretary, Joint Intelligence Group, Joint Staff
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- 66,67. Secretary, State-Army-Navy-Air Coordinating Committee
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